

CITY OF BRIDGEWATER

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

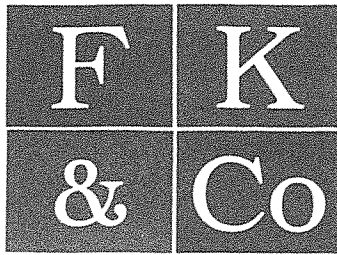
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City of Bridgewater

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2016)</u>		
Steve Frese	Mayor	Jan 2016
Merrill Bower	Council Member	Jan 2016
Kristi Burg	Council Member	Jan 2016
Dean Griffith	Council Member	Jan 2018
Leo Marnin	Council Member	Jan 2016
Marlo Smith	Council Member	Jan 2018
Mary Dunn	City Clerk	Indefinite
<u>(After January 2016)</u>		
Steve Frese	Mayor	Jan 2018
Merrill Bower	Council Member	Jan 2020
Kristi Burg	Council Member	Jan 2020
Dean Griffith	Council Member	Resigned
Leo Marnin	Council Member	Jan 2020
Marlo Smith	Council Member	Jan 2018
Mary Dunn	City Clerk	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated September 12, 2014 on the City of Bridgewater, Iowa covering the period June 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated September 12, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes an additional finding and recommendation for other issues identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Bridgewater and other parties to whom the City of Bridgewater may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Bridgewater during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

October 17, 2016

CITY OF BRIDGEWATER

Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated September 12, 2014:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Financial reporting – preparing and reconciling.
6. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment balances throughout the year. For two months reviewed, bank and book balances did not properly reconcile.

Recommendation - The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

Current Status – Partially corrected. For the period tested, bank reconciliations were prepared by the Clerk. Bank and book balances did not properly reconcile and variances were not resolved.

- (C) Clerk's Report – A monthly Clerk's report, including a summary of receipts, disbursements, beginning balances and ending balances by fund, is not prepared.

Recommendation – The City Clerk should prepare a monthly Clerk's report which includes a summary of receipts, disbursements, beginning balances and ending balances by fund. The City Council should review and approve of the Clerk's report monthly.

CITY OF BRIDGEWATER

Report on the Status of Periodic Examination Findings and Recommendations

Current Status – Partially corrected. The Clerk provides information to the Council each month that includes disbursements and balances by fund. While information about some of the receipts is provided, a summary of all receipts was not included.

(D) City Council Minutes – The following were identified:

- All four City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires the posting of the City Council minutes include a summary of all receipts. We noted that this requirement was not met by the City for all four meetings tested.

Recommendation – The City should comply with Chapters 380.7 and 372.13(6) of the Code of Iowa. In addition, the City should ensure all minutes are signed and that the posting of the City Council minutes include a summary of all receipts as required.

Current Status – Partially corrected. For the period tested, the minutes were signed by the Mayor and City Clerk. The City Council minutes did not include a summary of all receipts for one out of three months tested.

(E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Corrected. The City adopted a written investment policy with Resolution 2015-1-14.

(F) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

Current Status – Partially corrected. The City adopted a resolution naming official depositories, but it did not include the maximum amount to be deposited at the financial institution.

CITY OF BRIDGEWATER

Report on the Status of Periodic Examination Findings and Recommendations

- (G) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

Current Status – Not corrected. The recommendation is repeated.

- (H) General Ledger – The general ledger maintained by the City is inaccurate and incomplete.

Recommendation – The City implement procedures to ensure the general ledger is accurate and complete.

Current Status – Not corrected. The recommendation is repeated.

- (I) Certified Budget – It appears the City has no procedures in place to compare actual disbursements to budget disbursements, by function and in total.

The City did not budget for any receipts from road use tax collections, local option sales taxes and liquor licenses. The City receives these types of receipts every year.

Recommendation – The City should implement procedures to ensure actual disbursements are compared to budget disbursements by function and in total during the year. In addition, the City should ensure it budgets all expected receipts on the budget documents submitted to the State of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (J) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City's records.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City's records.

Current Status – Not corrected. The recommendation is repeated.

CITY OF BRIDGEWATER

Report on the Status of Periodic Examination Findings and Recommendations

- (K) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Steve Frese, Mayor Co-owner of Bridgewater Oil	Petroleum products	\$1,350
Marlo Smith, City Council Owner of Marlo's Repair Service	Repair services	\$153

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

Disclosure Only – For the period tested, Marlo's Repair Service provided repair service to the City for a total of \$105.

- (L) Payroll – Social Security and Medicare payroll taxes are not paid for the Mayor and City Council members.

Recommendation – Social Security and Medicare tax should be paid for the Mayor and City Council members.

Current Status – Not corrected. The recommendation is repeated.

- (M) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for its bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Corrected. The City receives an image of the back of each cancelled check with its bank statements.

CITY OF BRIDGEWATER

Report on the Status of Periodic Examination Findings and Recommendations

- (N) Disbursements – For one invoice tested, there was no indication that the invoice was approved by the City Council. Five disbursements tested were not properly supported by an invoice.

Recommendation – All invoices should be approved by the City Council. The City should also retain original invoices for all disbursements.

Current Status – Corrected. For the period tested, disbursements were supported by documentation and approved by the City Council.

Additional Findings as a Result of Follow-up Procedures:

- (O) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.